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April 4, 2019

To: The Chairman and Members of the Commission

From: Pamela Knotts, Regulatory Policy Administrator

Subject: IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY TO REVISE THE RATE FOR THE UTILITY RELOCATION CHARGE ("UFRC") TO RECOVER COSTS ASSOCIATED WITHTHE RELOCATION OF ELECTRIC UTILITY FACILITIES PURSUANT TO 26 DEL. C. §315 (FILED NOVEMBER 29, 2016; AMENDED DECEMBER 6, 2016) - PSC DOCKET NO. 16-1083

IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY TO REVISE THE RATE FOR THE UTILITY RELOCATION CHARGE ("UFRC") TO RECOVER COSTS INCURRED IN CONNECTION WITH THE RELOCATION OF ELECTRIC UTILITY FACILITIES (FILED MAY 31, 2017) - PSC DOCKET NO. 17-0401

Background

On July 9, 2001, the General Assembly and the Governor enacted 26 *Del. C.* §315[1], which permits electric utilities to impose a rate for a "Utility Facility Relocation Charge" ("UFRC Rate") during the period between base rate case proceedings. This UFRC Rate allows the utility to promptly begin to recover depreciation expenses and a return on capital invested in Eligible Utility Facility Relocations[2] recently put into service. The UFRC Rate is intended to allow Delmarva

[1] Senate Bill No. 80 Amended by Senate Amendment No. 1 & No. 2 dated June 2018 authorized the Electric Utility Distribution System Improvement Charge for seven years and incorporated relocations of existing distribution facilities as a result of governmental action.

[2] See 26 *Del. C.* §315 (a) (1)

Power & Light Company ("Company") to recover a portion of the cost of relocation of existing facilities necessitated by the Delaware Department of Transportation ("DelDOT") or other government agency projects until such time as the Company can recover their investment in a base rate case.

On November 29, 2016, Delmarva filed an application that was docketed as 16-1083 to revise the electric UFRC rate based on additional electric facility relocations that were placed into service between May 1, 2016 and October 30, 2016. Delmarva reported additions of Net Utility Plant of $420,637.86 and a Semi-Annual Depreciation expense of $(207.18). By Order No. 9009[3], dated December 20, 2016, the Commission allowed the UFRC rate of 0.05% to go into effect on January 1, 2017 subject to the Audit and final approval. The UFRC rate was based on total Net Utility Plant of $1,031,870.58 and a Semi-Annual Depreciation expense of $4,058.03

On May 31, 2017 Delmarva filed an application that was docketed as 17-0401 to revise the UFRC for additional electric facility relocations that were placed into service between November 1, 2016 and April 30, 2017. The increase was based on Net Utility Plant Additions of $530,245.13 and a Semi-Annual Depreciation expense of $2,686.53. In Order No. 9078, dated June 20, 2017, the Commission allowed the UFRC rate of 0.02% to go into effect on July 1, 2017, subject to audit and final approval for the 12-month period ending December 31, 2017. This rate was based on total Net Utility Plant of $1,562,115.71 and a total Semi-Annual Depreciation expense of $6,744.56.

This proceeding is for the findings of the annual audit and reconciliation for the UFRC year 2017 to ensure that 1) the plant included in the UFRC was an Eligible Utility Facility Relocation 2) the correct depreciation and cost of capital rates were used 3) retirements corresponding to the Eligible Utility Facility Relocation were accounted for correctly 4) the UFRC rate was applied correctly to customer's bills and 5) any over-or under collections were accounted for properly.

As per Order No. 9108, in Docket No. 17-0977, the Commission approved interim base electric distribution rates to go into effect on or after October 16, 2017, therefore the UFRC rate was reset to 0.00%.

During a review of the DSIC and UFRC it was noted there was a potential error in the calculation of pre-tax rates of return and on February 7, 2018, Staff sent a letter to the companies utilizing the UFRC, notifying them. During the audit and reconciliation of Docket Nos. 16-1083 and 17-0401, Delmarva submitted schedules showing adjustments made due to the correction to

[3] Docket No. 16-1083

the pre-tax rate of return utilized in the UFRC rate calculation. These adjustments lowered the semi-annual UFRC revenue requirement.

Audit and Reconciliation Findings for the Effective Period January 1, 2017 – October 16, 2017[4]

On September 4, 2018 Staff began receiving the requested information in Docket Nos. 16-1083 and 17-0401 in order to proceed with the audit and reconciliation. Staff reviewed customer bills by period and service classification. Staff determined that the UFRC rate was applied incorrectly on bills during the period January 1- June 30, 2017.

Staff requested the Company provide copies of letters from DelDOT requiring the relocation of electric facilities for all of the projects listed on Form 4, Schedule 2 (Projects Placed in Service and/or Retired) as well as information on each project, the reimbursement letters for each project from DelDOT or other government entities i.e. City of Wilmington and revenues for each 6 month period derived from the UFRC rate among other information. The rates for the electric UFRC needed to be recalculated for the gross up since only the equity portion of capital investments are to be grossed up to a pre-tax basis in order to reflect the income tax expenses associated with the allowable return. The plant additions were traced by project and were reviewed to ensure they met the statutory requirements. Staff did not find any substantive discrepancies in the Eligible Utility Facility Relocations or the retirements that were included in the Net Utility Plant additions. Staff also reviewed the Semi-Annual Depreciation Expense and determined that the depreciation rates used by the Company matched the respective Commission approved rates.

After many rounds of discovery the following was agreed upon by the Company and Staff.

For Docket No. 16-1083, the adjusted semi-annual revenue requirement for the period January 2017-June 2017 was determined to be $82,222.59[5] and the Company collected $73,707.35 in electric UFRC revenues which resulted in an under-collection of $8,515.24.

For Docket No. 17-0401, the adjusted semi-annual revenue requirement for the period July 2017 – October 15, 2017 was a credit of $4,324.04 and the Company collected $15,559.61 in electric UFRC revenues which resulted in an over collection of $ 19,883.65.

The reconciliation amount of the electric UFRC revenues for the period January 1, 2017 – December 31, 2017 resulted in $11,368.42 over-collection plus interest in the amount of $1,013.36 for a total of $12,381.78 which will be included in the July 2019 Distribution System Improvement Charge.

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[4] Docket No. 17-0977, Order No. 9108

[5] The total revenue requirement for the period Jan. 1-June 30, $2017 includes the revised revenue requirement of $38,270.04 set in Docket No. 16-0671, Order No. 9261. And the additional revenue requirement in Docket No. 16-1083 of $43,952.55 which total $82,222.59.

Recommendations

Based on the findings detailed above Staff respectfully recommends that Docket Nos. 16-1083 and 17-0401 be closed.